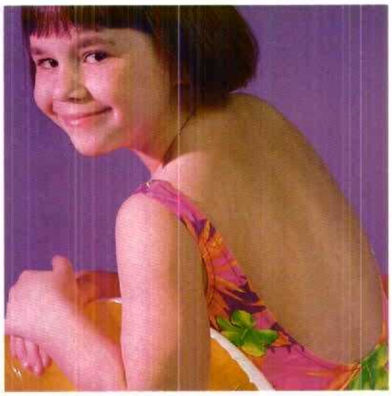
1990 ANNUAL REPORT



J.C. Penney Company, Inc.

Where fashion comes to life℠

FINANCIAL HIGHLIGHTS (In millions except per share data)

For the Year	1990	1989	1988
Retail sales	**$ 16,365**	$ 16,103	$ 14,833
Net income	**$ 577**	$ 802	$ 807
Fully diluted earnings per share	**$ 4.33**	$ 5.86	$ 5.92
Dividends per common share	**$ 2.64**	$ 2.24	$ 2.00

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THIS IS JCPENNEY: JCPenney is a major retailer, with department stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, shoes, jewelry, accessories, and home furnishings.

ANNUAL MEETING: Our Annual Meeting of Stockholders will be held at 10:00 a.m., Friday, May 24, 1991, at the Marriott Mandalay at Las Colinas, 221 East Las Colinas Boulevard, Irving, Texas. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 15, 1991.

FRONT COVER (left to right): Junior casual wear by Necessary Objects, Ltd.; floral tie by Stafford; others by J.T. Beckett; girl's swimsuit by Little Miss Dune Deck; sheets and pillows from By Design JCPenney.

BACK COVER (left to right): Heart-shaped pillow from Battenberg by Elizabeth Gray; men's active wear by Saturday's; fragrances by White Shoulders, Anne Klein II, Rumba, Gucci, Galanos, and L'Air du Temps; girl's dress by Amy Byer and boy's ensemble by Michael James.

All merchandise pictured in the Annual Report is available at JCPenney stores or through the JCPenney catalog.

TO OUR STOCKHOLDERS:

For the retailing industry, 1990 was a challenging year. An impending recession and concerns about the situation in the Persian Gulf combined to erode consumer confidence, especially during the second half. As a result, sales and profits within the industry were more negatively impacted than at any time since the last major recession of 1980-82.

JCPenney's retail sales for the year rose 1.6 per cent to $16.4 billion. Net income totaled $577 million, or $4.33 per share, fully diluted. This compared with $802 million, or $5.86 per fully diluted share, in 1989. There were approximately 3.8 million fewer shares outstanding on average in 1990.

Gross profit dollars for both stores and catalog declined for the year coincident with the fall-off in sales and the increase in the LIFO reserve resulting from higher merchandise inflation, especially in women's apparel and fine jewelry.

Selling, general, and administrative expenses rose 4.5 per cent for fiscal 1990. Offsetting tightly controlled salaries and advertising expenditures were high health care costs, bad debt expense, and expenses related to the store modernization program, including the depreciation of store fixturing.

In 1990, our quarterly dividend was raised ten cents per share, an increase of 17.9 per cent. During the 1980s, our average annual growth in dividends per share paid to our stockholders was approximately 10 per cent.

Additional financial information is shown in our consolidated financial statements and Management's Discussion and Analysis of Results of Operations and Financial Position, beginning on page 19.

As we entered 1990, most retail economists and analysts were forecasting industry sales increases of about 6 per cent for the year. That industry level was achieved during the first quarter, but as concerns about a recession began to appear, weaker sales developed during the second quarter and declined even further in the third quarter with the Iraqi invasion of Kuwait. This trend continued for the balance of the year; industry results were generally flat for the fourth quarter despite intense promotional activity.

The slowdown affected all four of our merchandise divisions. It had the most impact on Women's, which commands 43 per cent of our floor space and a larger percentage of our resources. Men's and Children's

William R. Howell, chairman of the board and chief executive officer (right) and Robert B. Gill, vice chairman of the board and chief operating officer, JCPenney stores and catalog.

were closer to original estimates, but our Home and Leisure business was affected by a softness in furniture sales; durable goods suffered industry-wide because of the decline in home sales. The plunge in consumer confidence was also evident in catalog; sales from the Christmas book, for example, were off nearly 10 per cent from the prior year.

This difficult environment was compounded by the dislocation within the retailing industry itself. Buyouts and over-leveraging have burdened some companies with heavy debt, meaning they must create sales to generate cash, requiring other retailers to become highly promotional to remain competitive. This, combined with higher-than-anticipated inventory levels because of lower-than-expected sales, resulted in intense pressure on margins in the second half.

In spite of this environment, we moved forward in a number of important areas during 1990. As examples:

- We made good progress in acquiring and offering a wider range of well-known department store brands. We now carry dozens of names that were not part of our mix a few years ago, including Maidenform, Warner, Counterparts, Cherokee, White Shoulders, Dockers, Henry Grethel, Haggar, Van Heusen, Palm Beach, Health-tex, and OshKosh B'Gosh.

- We continued to upgrade and position many of our exclusive JCPenney national brands, such as Hunt Club, Jacqueline Ferrar, St. John's Bay, and Stafford. This has always been our area of expertise; we have been the #1 seller of private label soft goods in America for decades.

  Part of this effort has been a strong commitment to *quality*. Current research confirms that quality has become an all-important issue with consumers. We want to assure that the quality of our own brands not only meets, but exceeds our customers' expectations. During the year, we upgraded our merchandise testing center; added to our factory inspection team; and redefined our factory evaluation rating system. We are today working with outstanding suppliers like Hart Schaffner & Marx, Johnston & Murphy, Bally, and Bugle Boy in the manufacture of our exclusive JCPenney national brands. With these and other well-respected vendors creating our lines, we will be competitive on quality and value with any department store in America.

- We made further progress in enhancing the visual appearance of our stores. Nearly 30 per cent of our capital expenditures will go for existing store improvement over the next five years — a total of about $1 billion. In addition, we built and acquired new stores in premier shopping malls. Overall, our strategy for the 1990s is to improve our existing space, acquire new prime space, and devote more space to the lines most important to consumers.

- Finally in 1990, we launched another major phase of our repositioning — our new national communications campaign: "JCPenney Where fashion comes to life.SM" This strategy links our merchandise programs, our visual merchandising, our advertising, and our customer service to the lifestyle trends and lifestyle changes we see taking place among consumers. The strategy clearly signals a new JCPenney and underscores the positioning of our Company to meet the needs of the consumer of the 1990s. It's the latest, most visible step in our repositioning, and we're confident it will further build the momentum in achieving our national department store goals.

With ever-growing numbers of women within our management ranks, in 1990 we established a Women's Advisory Team to develop programs and recommend ways to foster the advancement of women at all management levels, especially into senior management positions. At the same time, our Minority Advisory Team is committed to building more cultural diversity into our management partnership and has an overall objective of increasing the representation of minorities in senior management positions.

Looking ahead, most economists predict that there will be little upward movement in the economy until the second half of this year. The cessation of hostilities in the Persian Gulf should give a boost to consumer confidence. Fundamental problems, however, remain within the economy, including the federal budget deficit and difficulties in the real estate and banking industries. These cannot be solved within a matter of weeks or months. Thus, we believe that 1991 will have its own challenges, particularly in the first half.

In this environment, our focus will continue to be on generating sales, while at the same time controlling inventories and expenses. Expense budgets for 1991 have been planned at the same levels as 1990, relative to expected sales, with contingencies in place for further reductions should they become necessary.

As a result of these and other actions, we believe JCPenney will be in a good position for recovery when consumer spending strengthens. The upheaval of the past year strained the traditional relationships between many department stores and their suppliers and creditors. This was not the case with JCPenney; we continued to solidify our relationships with our suppliers, real estate developers, and the financial community, and forged new relationships with a number of well-known department store vendors. We believe these relationships will provide a source of strength as we move forward.

Another highly important source of strength is our balance sheet. Our current high quality credit ratings are well-recognized throughout worldwide financial markets. We are committed to maintaining this strength and advantage, which provide access to many potential sources of capital, even in today's difficult economic environment.

Strategically, our focus remains on our repositioning and the adjustments we must make to meet changing consumer wants and needs. All of our energies, talents, and resources are being allocated toward the opportunities that the 1990s present to JCPenney. Events of the past year in no way diminish our strategic objective of strengthening our position as the nation's department store. Whether times are good or bad, we will keep our focus fixed on providing the fashions and other merchandise our customers want, improving the quality of everything we offer, and on driving expenses down.

I would like to express our deep appreciation and respect to three officers who have been instrumental in helping to guide JCPenney for many years and have now retired from the Company's service. They are John A. Wells, senior vice president and director of real estate, construction services and specialty retailing; John A. McConville, president of the Women's Division; and Robert J. Keller, vice president and director of construction services. All three have left their mark on our Company and can look back upon outstanding, productive careers. We thank them for their endeavors.

Special thanks and appreciation are in order for Walter B. Wriston, who has retired from our Board of Directors after 25 years of service. As the former chairman of Citicorp and Citibank, N.A., Walt Wriston brought to the Board a unique business and financial perspective that has been invaluable in helping chart our course over the years. On March 13, we welcomed to the Board Dr. A. Kenneth Pye, president of Southern Methodist University.

I would also like to acknowledge the efforts of our 196,000 associates nationwide, who in reality are the JCPenney Company to our tens of millions of customers. More than anyone else, they are the ones who will truly make JCPenney the place "where fashion comes to life" as we continue our progress in the 1990s.

We are particularly proud of the 256 JCPenney associates who served our country in the Persian Gulf War. We extend our thanks to each and every one of them and look forward to their safe return to the United States.

Thank you for your continued confidence and support as a stockholder over the past year. We remain dedicated to continuing JCPenney's repositioning with the objective of another decade of sustained, profitable growth and the enhancement of your investment.

Warmest regards,

WR Howell

William R. Howell
Chairman of the Board and
Chief Executive Officer
March 27, 1991

Dramatic changes are occurring in today's consumer marketplace, and they will affect all retailers as we move through the '90s.

"The consumer of the '90s is a smart, sophisticated shopper," says W. Barger Tygart, executive vice president and director of merchandising. "High on her list of priorities is value, which she defines as the right combination of quality, fashion, and price.

"Value has been a Penney tradition for all of our 89 years," Tygart says, "so we feel very comfortable in this environment. As to quality, our goal is to exceed customer expectations for JCPenney's exclusive national brands.

"Quality has never been more important than it is today. Research shows that eight out of ten consumers identify quality as equal to or more important than price when buying apparel. Along with our suppliers, whom we consider our partners, we are committed to providing higher quality merchandise at lower costs than our competition. This is key to serving the customer of the '90s, who is more intent than ever on getting 'more for less.' "

Bringing fashion to life at JCPenney begins with an understanding of the changing consumer marketplace and the lifestyle trends that affect it.

"Consumers today have more options and want more flexibility in the way they live and express themselves," says Gale Duff-Bloom, senior vice president

ABOVE: W. Barger Tygart, executive vice president and director of merchandising (left), and Gale Duff-Bloom, senior vice president and associate director of merchandising, reviewing merchandise samples with James L. Hailey, president of the Women's Division.
RIGHT: Thomas D. Hutchens, president of the Men's Division (center), and district manager James E. Vermillion review an upcoming merchandise line with men's sportswear buyer Deborah E. Robertson.

and associate director of merchandising. "Their lifestyles and buying habits reflect attitude, not age. They are interested in merchandise that is affordable and that matches their personal style.

"Women especially want the opportunity to create their own looks, and that's why it's incumbent upon us to support lifestyle trends with brands and collections that afford them lots of mix-and-match possibilities. We also strive to keep our color palette timely since color can be a quick and thrifty way to bring a touch of newness to a wardrobe.

"But more than anything else, *people* bring fashion to life at JCPenney," adds Duff-Bloom. "In the highly competitive retail world of the '90s, the Company is determined to attract and retain the best and the brightest people — the most talented merchants — from a diverse work force.

"The woman shopper accounts for more than 70 per cent of the apparel purchases in our stores," says Duff-Bloom, "so it's vital that we bring a strong woman's perspective to all of our merchandising and business planning. JCPenney's Women's Advisory Team was created last year to assist in this effort."

Understanding consumers of the '90s is just the first step in providing them with merchandise to match their lifestyles. Everything we do must have a sharp consumer focus — from our pricing to our presentation, to advertising, to customer service.

"We are prepared to be responsive to the consumer and the realities of the marketplace," Tygart says.

Shown on store visits are (top): Henry H. Scott, president, Children's Division (left), and Robert C. Bermejillo, senior merchandising manager, Town East Mall, Mesquite, Texas, and (bottom): James J. Kennedy, president, Home and Leisure Division, and Cynthia K. Collins, senior merchandising manager, Collin Creek Mall, Plano, Texas.

WOMEN'S DIVISION

The fashion business, like fashion itself, is all about change. In no area is this more apparent than in our Women's Division, which is undergoing its own changes as it moves toward greater fashion credibility.

James L. Hailey, who became president of the Women's Division in 1990, puts it succinctly: "Our top priority is to provide the fashion merchandise our customer wants. Our job is to listen to her and respond as quickly as possible."

CONSUMER FOCUS

According to Hailey, "Our potential customer base — consumers whom we classify as traditional and updated in their style preference — accounts for more than 70 per cent of all fashion apparel purchases in department stores. Our decisions are based primarily on the needs of these consumers."

JCPenney defines the traditional customer as a woman who prefers classic, versatile styles with an accent on quality. The updated woman is seen as one who prefers styles that reflect the latest fashion trends, a frequent shopper who is willing to pay the price for a quality look. Both types of customers — as well as the conservative customer that the Women's Division has always had — are discovering a new shopping experience at JCPenney.

BRAND NEW DAY

National brands — prominent lines that consumers expect to find in fashion department stores — make up approximately one-third of our women's apparel offerings.

"We now carry two-thirds of the top 35 national sportswear lines," says Hailey. "There are, however, a few categories of merchandise that we could strengthen with national brands." For those categories, Hailey and his management team are in hot pursuit of national brands to add to the mix.

In 1990, the intimate apparel and sleepwear departments were reshaped with the addition of noteworthy national brands such as Warner's, Maidenform, Jockey For Her, Gilligan O'Malley, Val Mode, Komar, and Vanity Fair.

Several prestige fragrance and cosmetic lines debuted in 1990, including Presence by Houbigant, White Shoulders by Parfums Int'l., and the Color Studio by Revlon. Fashion jewelry went for the gold, adding the Napier line. One of the most popular department store collections, Napier is particularly suited to the styles of traditional and updated consumers.

WHAT'S IN A NAME?

"We're committed to refining and upgrading our exclusive private brands," says Hailey. "We want them to rival the best in the business in terms of fashion, value, and quality."

CLOCKWISE FROM TOP:
Casual wear from Dockers by Levi's; junior fun wear by Necessary Objects, Ltd.; gemstone jewelry available in JCPenney fine jewelry departments; and lace-trimmed slip by Vanity Fair.

OPPOSITE PAGE:
Floral three-piece ensemble by Worthington and three-piece career ensemble by Jacqueline Ferrar.

In the highly competitive world of fashion retailing, private brands offer the greatest challenges and opportunities. Almost 65 per cent of women's apparel revenues are generated by private brands, and 1991 plans call for further development of such key lines as Hunt Club and Jacqueline Ferrar.

Studies show that the Company's focus on private brands is paying off. In a recent national survey, Hunt Club ranked among the top 10 most recognizable labels, with Worthington and French Navy not far behind. In a survey conducted by JCPenney's own research team, Jacqueline Ferrar — the updated apparel line barely two years old — was recognized by 43 per cent of those polled.

ABOVE (left to right):
Graphic suit dressing by Harvé Benard; women's fragrances by White Shoulders, Anne Klein II, Rumba, Gucci, Galanos, and L'Air du Temps; elegant evening wear by O.R. Silk; fashion jewelry by Napier.

BOTTOM:
Scarf by Jacqueline Ferrar.

PUTTING OUR BEST FACE FORWARD

JCPenney is intent on looking its best. Nearly 30 per cent of the Company's capital expenditure budget over the next five years has been allocated to the creation of an exciting shopping atmosphere throughout the entire store.

In the Women's Division, visual programs — from innovative floor-to-ceiling fixtures to complete department makeovers — were implemented in the Company's top 150 stores in 1990.

Fernand Aubry cosmetics, made in France and sold in America exclusively at JCPenney, receive special attention with elegant displays as well as interactive pavilions in larger stores.

The intimate apparel departments, especially the Delicates shops, have been redesigned with the updated consumer in mind. This consumer has previously shopped in specialty stores, but now she can find the same feminine shopping atmosphere at JCPenney.

JCPENNEY FASHION COMES TO LIFE

The spirited communications campaign, "JCPenney Fashion comes to life,^{SM}" was launched during 1990. Advertising and marketing efforts — from TV and magazine ads to direct mail and point-of-sale materials — are focusing the consumers' attention on JCPenney's new fashion look.

Special events and publicity efforts also keep the Company's name in the news: The 1990 Seventeen Cover Model Contest attracted applications from more than 32,000 young women; celebrity market tours helped build fashion credibility; and the first-ever publicity campaign for fine jewelry showcased JCPenney as the nation's second largest retailer in fine jewelry.

But personal communication at the store level remains the key ingredient to making fashion come to life: "Our sales associates are our fashion ambassadors," says Hailey. "They make it all happen."

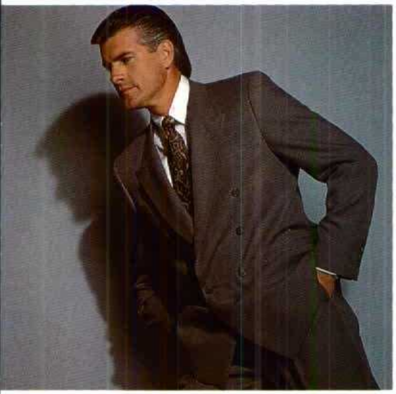
CLOCKWISE FROM TOP:
Handbags by Hunt Club; skin care by Fernand Aubry; active wear by Diversity Sport.

MEN'S DIVISION

"The only constant is change," says Thomas D. Hutchens, president of the Men's Division, when referring to the activities of merchandising apparel for the JCPenney customer. "As our customers' wardrobe needs evolve, so must our assortment of apparel and the brands the customers expect to find in our men's department."

Every JCPenney division shares the common goal of getting just the right balance of private and national brand merchandise. It is a finely calibrated process and one that responds to the changing needs of consumers.

"Our customers have the final voice," continues Hutchens. "Our challenge is to offer the balanced assortment of fashion merchandise that our customers want. Then let them cast their vote at point of sale."



ON TARGET WITH NATIONAL BRANDS

1990 has been a banner year for the in-store introduction of national brands, such as Haggar, Henry Grethel, Jockey, Palm Beach, Van Heusen, and others.

The ongoing success of Levi Dockers suggests that the latest national brand offerings have found a terrific home at JCPenney. The Company is currently the nation's number one retailer of Dockers. Dockers' shops-within-a-shop have been a rousing success. Additionally, a more updated Dress Dockers was introduced in 1990 and the Docker Sport line will be added in 1991.

"Similar to the Dockers program, our goal is to have a dominant national brand in each merchandise classification," says Hutchens.

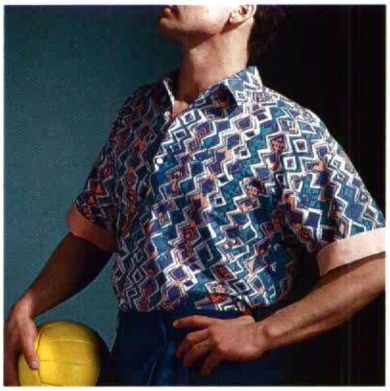
CLOCKWISE FROM TOP LEFT:
Suit by Stafford; traditional outerwear from Hunt Club; active wear by Saturday's.

OPPOSITE PAGE:
Classic V-neck sweater, plaid shirt, and trousers by Hunt Club.

MAKING THE QUALITY DIFFERENCE

Now that the Company carries an assortment of branded merchandise that competes with the best fashion department stores, what makes JCPenney different?

According to Hutchens, the answer is simple: "It's our own private brands. They are the cornerstone of our merchandising efforts and have made us the destination store that we are today."



The Men's Division, along with the other divisions, has energized the brand development process. The men's brand development team refines the fashionability, quality, and value of its private brands, which include, among others, Stafford, Hunt Club, St. John's Bay, and J.T. Beckett.

With its private brands, JCPenney has a "hands-on" approach to quality, which is fast becoming the most important issue in consumer buying decisions. Quality begins with design, and brand development teams are deeply entrenched in the technical specifications, construction, fabrication, and fit for each private brand.

The JCPenney quality assurance department works side by side with both buyers and brand development teams, providing leadership in production control. Quality assurance, for instance, has developed a universal factory evaluation rating system to match factories of appropriate capabilities to each division's branding strategy requirements.

After all, quality cannot be inspected into a garment. It must be designed into the merchandise.

THE EYES HAVE IT

The Men's Division understands the importance of visual merchandising in bringing fashion to life. "It's a basic fact; the perceptions of our customers are

TOP: Suspenders by Stafford Executive.

MIDDLE (left to right): Robe by Hunt Club; pants and shirt by Dockers by Levi's; assorted silk boxer shorts by Isaco.

BOTTOM: Shirts and ties by Henry Grethel.

dictated primarily by what they see in our stores," says Hutchens.

Collections departments and shop-within-a-shop concepts have become primary focal points. Simply For Sports shops, in particular, have proven to entice customers. By the end of 1990, there were over 500 JCPenney stores with this sporty boutique, averaging 2,500 square feet in size. Sales in athletic apparel and footwear with brands such as Nike, Reebok, LA Gear, and the Company's exclusive USA Olympic brand, soared and made this the fastest growing area in the Men's Division.

DOUBLE EXPOSURE

Marketing activities generate excitement and make JCPenney a unique place to shop. "Whenever possible, special events and publicity are linked together to maximize the exposure of apparel," explains Hutchens.

In 1990, marketing activities tied to pop culture trends such as Bart Simpson, Dick Tracy, and Days of Thunder spurred sales and in-store excitement.

In-store athlete appearances and the burgeoning activities related to JCPenney's role as a Sponsor and the Official Outfitter of the 1992 U.S. Olympic Team all contributed to increasing sales and enhancing the Company's image.

Hutchens and his team continue their efforts to refine and update a Men's Division that is second to none.

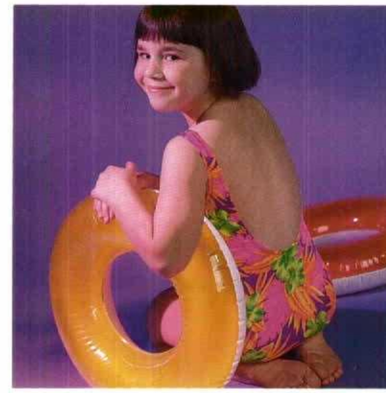
"All of us at JCPenney share the same vision of a consumer-oriented merchandising strategy," Hutchens says. "Their needs define our objectives."

CHILDREN'S DIVISION

Henry H. Scott, president of the Children's Division, and his management team lead the largest children's retail apparel business in the world.

"Almost 11 cents out of every dollar spent on children's apparel is spent at JCPenney," says Scott. "We see this as a challenge. After all, we want our business to grow."

With more than four million babies born in 1990, Scott and his team have good reason to be optimistic.



LOOK WHO'S TALKING

"When plans are based on the consumer's point of view, the results will always be positive," says Scott. "Our focus is on two separate audiences: the ego-sensitive, high-end gift givers, especially in infants and toddlers, and the peer-pressure consumers, most active in girl's and boy's."

Like the other merchandise divisions, Scott and his team utilize sophisticated market research tools in their efforts to reach consumers and get them talking.

CLOCKWISE FROM TOP:
Swimsuit by Little Miss Dune Deck; children's athletic shoes by Nike and Reebok; active wear by Bugle Boy; fun wear by OshKosh B'Gosh.

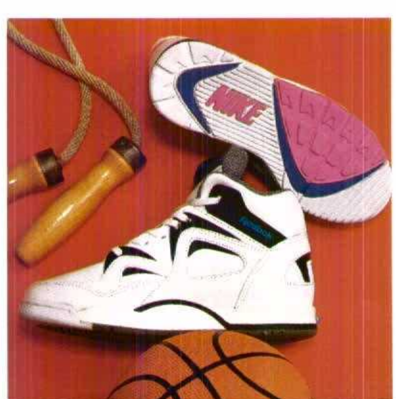
On one front, traditional focus groups, which provide qualitative information, are held to learn children's current vocabulary and tastes.

In addition, JCPenney's 16 satellite research centers allow speedy access to consumers via the satellite network. News travels fast through an innovative item testing program; consumers view apparel items via a video screen and give their electronic thumbs up or down. The results roll into corporate headquarters within 48 hours.

NATIONAL BRANDS SCORE BIG

"Our ability to attract national brands has been a great benefit for us," says Scott. "Our challenge is to select the right brands for just the right mix."

Amidst a playful environment that brings out the kid in everyone, the Children's Division has a terrific assortment of national brands to satisfy even the most status-conscious consumers. The roster now includes Baby Guess, Bugle Boy, OshKosh B'Gosh, Levi's, Cherokee, Health-tex, and Hush Puppies, among many others.



BRIGHT FUTURE FOR PRIVATE LABELS

"Our real success this year has been the consumer's recognition of our private labels," says Scott.

Exclusive JCPenney brands such as Apparatus, New Moves, and Okie Dokie continue to move on the fast track. In a recent study, consumers rated the apparel high in quality, value, and styling in comparison with other key competitors.

Bright Future, the all-cotton infant and newborn apparel, is an exceptional success story, contributing highly to consumer confidence in JCPenney.

"Our strategy is simple when it comes to private brands," says Scott. "If it doesn't measure up, we don't ship it."

IT'S SHOWTIME

In the Children's Division, cartoons are serious business. This year, licensed goods — usually exclusive merchandise adorned with animated characters or popular media figures — helped to make JCPenney the place to shop.

New Kids on the Block licensed goods generated a significant sales beat and the Teenage Mutant Ninja Turtles merchandise achieved blockbuster status.

While other licenses come and go, Sesame Street goods, which have been sold through JCPenney for 15 years, continue to account for seven per cent of the store's infants' and toddlers' business.

Special events also capitalized on the licensed merchandise. 1990 highlights included special appearances of Ninja Turtles and a New Kids on the Block tour, featuring the New Kids' parents.

"We thrive on giving the consumer something a little bit different," says Scott. "Believe me, in terms of special events in the Children's Division, it's rarely business as usual."

CLOCKWISE FROM TOP RIGHT:
Active wear from Apparatus and The Original Arizona Jean Company, Levi's belts; flowered infant romper by Baby Guess; pastel infant romper by Bright Future, key ring and blanket by Toddletime; girl's dress by Amy Byer and boy's ensemble by Michael James.

OPPOSITE PAGE:
Tops by Apparatus and jeans by The Original Arizona Jean Company.


FREE
KITTENS

HOME DIVISION

Recent consumer trend studies report that the '90s home is the core of personal life, a relaxing refuge after busy, highly structured days. It is a center for entertaining, exercising, and sometimes even conducting business. Increasingly, it is also an expression of personal style.

James J. Kennedy, President of the Home Division, and his management team keep a close watch on these trends, especially as they relate to JCPenney and its customers.

"The emergence of the home as a means of self-expression, coupled with the maturing population, will put a great deal of attention on home lines throughout the '90s," says Kennedy.

HOMEWARD BOUND

For JCPenney, home lines are largely private label lines. "We are not at a competitive disadvantage without national brands," says Kennedy. "In fact, our private brands in home furnishings perform with the clout of national brands."

Lifestyle and attitude play a big part in defining today's consumer. The Home Division, like each of JCPenney's merchandise divisions, has identified consumers by lifestyle segment in the development of private lines.

By Design JCPenney was created for the updated customer, who defines value as fashion first, then quality, followed by price. Her style-setting presence lends credibility to JCPenney as a fashion destination store.

The traditional customer prefers style with longevity and is willing to pay more for quality. Both Elizabeth Gray and Classic Traditions have been created to appeal to this personality.

CLOCKWISE FROM TOP:
Bathroom accessories by Nova Designs; dinnerware by International China Co., Inc.; wave lamp by Alsy.

OPPOSITE PAGE:
Bedding coordinates by Elizabeth Gray.

The conservative customer — especially suited to the Home Collection — is interested in the basics, especially a sensible price with a noticeable focus on quality.

"Our consumer-focused merchandise assures that 'Fashion comes to life' for each JCPenney customer," says Kennedy.

COLOR FORUM

The Home Division has introduced one of the most innovative merchandise color systems in home furnishings. It distinguishes JCPenney from other retailers and provides a unique service to customers. Called the Color Forum, it links all of the Company's private brands through a unified color palette,

CLOCKWISE FROM TOP:
Heart-shaped pillow from Battenberg by Elizabeth Gray; The JCPenney Towel; sofa by Carson Reed.

making it easy for customers to coordinate all their home furnishings needs. The Home Division's fashion team works with manufacturers to assure that colors are consistent across every product line. Tea Rose, for instance, is the same color in bath accessories as in towels; peach print chair cushions harmonize perfectly with coordinating window treatments.

"The result is decorating made easy for our customers," says Kennedy. "That's why they'll come back to us again and again."

NEW LOOK FOR A PROVEN PERFORMER

JCPenney is committed to changing its merchandise in response to the changing needs of consumers. The JCPenney Towel, for instance, has been redesigned with the '90s consumer in mind. "Our goal was simple: deliver the quality and value that consumers of the '90s expect from JCPenney," says Kennedy.

The new JCPenney Towel, which made its debut in 1990, is bigger, thicker, softer, and more absorbent, now weighing in at more than a pound. "Best of all for customers," says Kennedy, "the price remains the same."

VISUAL APPEAL

"Communicating a consistent fashion message to our customers is an integral part of the Home Division's program," says Kennedy. "We find the best way to do that is to provide visual fashion cues."

To that end, new fixturing, packaging, and store signing enhance the Home departments in JCPenney stores across the country. Dramatic visual presentations of completely accessorized room environments give customers an opportunity to see how a total lifestyle look can be created.

New brand logos have been specifically designed to reflect the personality and individuality of the consumer segment they target. In addition, each logo carries the Color Forum subhead, which tells the customer that mix-and-match shopping expectations can be easily met.

Redesigned packaging — complete with photography of richly accessorized environments — further clarifies the message for customers. A broad range of products featured in photos also offers a wealth of decorating ideas and invites multiple purchases.

"We want to offer our customers everything they need to create the home of their dreams," says Kennedy.

CONSOLIDATED STATEMENT OF INCOME

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1990	1989	1988
Revenue			
Retail sales	**$ 16,365**	$ 16,103	$ 14,833
Finance charge revenue	**674**	653	649
Other revenue	**371**	302	463
Total revenue	**17,410**	17,058	15,945
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	**10,969**	10,492	9,717
Selling, general, and administrative expenses	**4,999**	4,782	4,464
Costs and expenses of other businesses	**309**	279	487
Interest expense, net	**301**	303	307
Nonrecurring items	**—**	32	(222)
Total costs and expenses	**16,578**	15,888	14,753
Income before income taxes	**832**	1,170	1,192
Income taxes	**255**	368	385
Net income	**$ 577**	$ 802	$ 807
Earnings per common share			
Primary	**$ 4.59**	$ 6.31	$ 6.02
Fully diluted	**$ 4.33**	$ 5.86	$ 5.92

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

(In millions)

	1990	1989	1988
Reinvested earnings at beginning of year	**$ 3,403**	$ 3,057	$ 3,213
Net income	**577**	802	807
Unrealized change in equity securities	**—**	6	2
Retirement of common stock	**(210)**	(156)	(688)
Redemption of preferred stock purchase rights	**(12)**	—	—
Common stock dividends declared	**(311)**	(271)	(260)
Preferred stock dividends declared, net of taxes	**(34)**	(35)	(17)
Reinvested earnings at end of year	**$ 3,413**	$ 3,403	$ 3,057

See Summary of Accounting Policies on page 25 and 1990 Financial Review on pages 26 through 36.

CONSOLIDATED BALANCE SHEET

(In millions)

J.C. Penney Company, Inc. and Subsidiaries

Assets	1990	1989	1988
Current assets			
Cash and short term investments of $128, $397, and $653	**$ 137**	$ 408	$ 670
Receivables, net	**3,837**	4,353	4,233
Merchandise inventories	**2,657**	2,613	2,201
Prepaid expenses	**168**	165	142
Total current assets	**6,799**	7,539	7,246
Properties, net	**3,500**	3,237	3,034
Other assets	**2,026**	1,922	1,974
	$ 12,325	$ 12,698	$ 12,254

Liabilities and Stockholders' Equity	1990	1989	1988
Current liabilities			
Accounts payable and accrued expenses	**$ 1,672**	$ 1,794	$ 1,666
Short term debt	**904**	1,288	756
Current maturities of long term debt	**75**	164	244
Deferred taxes	**11**	154	119
Total current liabilities	**2,662**	3,400	2,785
Long term debt	**3,135**	2,755	3,064
Deferred taxes	**1,021**	1,124	1,346
Other liabilities	**1,113**	1,066	1,102
Stockholders' equity			
Preferred stock, without par value: Authorized, 25 million shares—issued, 1 million shares of Series B LESOP convertible preferred	**697**	704	706
Guaranteed LESOP obligation	**(566)**	(619)	(668)
Common stock, par value 50¢: Authorized, 500 million shares—issued, 117, 120, and 123 million shares	**850**	865	862
Reinvested earnings	**3,413**	3,403	3,057
Total stockholders' equity	**4,394**	4,353	3,957
	$ 12,325	$ 12,698	$ 12,254

See Summary of Accounting Policies on page 25 and 1990 Financial Review on pages 26 through 36.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1990	1989	1988
Operating activities			
Net income	**$ 577**	$ 802	$ 807
Deferred taxes	**(246)**	(187)	(46)
Depreciation and amortization	**299**	275	258
Amortization of original issue discount	**46**	46	60
Nonrecurring items	**—**	32	(222)
Change in cash from:			
Customer receivables	**(288)**	(480)	87
Sales of customer receivables	**800**	350	250
Inventories, net of trade payables	**(89)**	(349)	273
Other assets and liabilities, net	**(86)**	31	(169)
	1,013	520	1,298
Investing activities			
Capital expenditures	**(637)**	(477)	(481)
Proceeds from sale of headquarters building	**—**	—	302
Other investments	**3**	(2)	(7)
	(634)	(479)	(186)
Financing activities			
Increase (decrease) in short term debt	**(384)**	532	(199)
Issuance of long term debt	**500**	—	200
Payments of long term debt	**(187)**	(373)	(214)
Common stock retired, net	**(225)**	(159)	(781)
Preferred stock issued (retired)	**(7)**	(2)	706
Redemption of preferred stock purchase rights	**(12)**	—	—
Dividends paid, preferred and common	**(335)**	(301)	(266)
	(650)	(303)	(554)
Net increase (decrease) in cash and short term investments	**(271)**	(262)	558
Cash and short term investments at beginning of year	**408**	670	112
Cash and short term investments at end of year	**$ 137**	$ 408	$ 670
Supplemental cash flow information			
Interest paid	**$ 287**	$ 301	$ 278
Interest received	**$ 24**	$ 33	$ 29
Income taxes paid	**$ 478**	$ 559	$ 350

See Summary of Accounting Policies on page 25 and 1990 Financial Review on pages 26 through 36.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 26, 1991, January 27, 1990, and January 28, 1989, and the related consolidated statements of income, reinvested earnings, and cash flows, appearing on pages 19 through 21 and pages 25 through 36, for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 26, 1991, January 27, 1990, and January 28, 1989, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

KPMG Peat Marwick
1601 Elm Street, Dallas, Texas 75201
February 28, 1991

COMPANY STATEMENT ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal accounting controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears above.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the audit plans, scope, fees, and audit results of the auditors; reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

William R. Howell
Chairman of the Board
and Chief Executive Officer

Robert E. Northam
Executive Vice President
and Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Results of operations	**1990**	1989	1988
Retail sales, per cent increase (decrease)	**1.6**	8.6	(3.3)
Gross margin, per cent of retail sales	**33.0**	34.8	34.5
Selling, general, and administrative expenses, per cent of retail sales	**30.6**	29.7	30.1
Interest expense, net, per cent of retail sales	**1.8**	1.9	2.1
Income before income taxes and nonrecurring items, per cent of total revenue	**4.8**	7.0	6.1
Income before nonrecurring items, per cent of total revenue	**3.3**	4.8	4.2

Income. Income before nonrecurring items declined 29.8 per cent to $577 million from $822 million in 1989 and $668 million in 1988. The decline in 1990 was primarily due to weakened consumer demand, especially during the second half of the year, and a substantial increase in the LIFO reserve. The increase in 1989 was a result of higher sales and a decrease in the LIFO reserve. 1988 declined due to a considerable increase in the LIFO reserve and the costs of discontinuing home electronics, hard sporting goods, and photographic equipment.

Income per share on a fully diluted basis, before nonrecurring items, was $4.33, as compared to $6.01 in 1989, and $4.90 in 1988. Income per share has benefitted from fewer shares of common stock outstanding, due to the stock purchases in the last three years.

There were no nonrecurring items in 1990. Nonrecurring items in 1989 reflected a pre-tax provision of $32 million for discontinuing Telaction, a subsidiary that had offered an interactive television shopping service. This provision reduced net income by $20 million, and fully diluted earnings per share by 15 cents. In 1988, the Company recorded a pre-tax gain of $222 million on the sale of the Company's former corporate headquarters building. This gain increased the Company's net income by $139 million, or $1.02 per fully diluted share.

Net income, including all nonrecurring items, decreased 28.0 per cent in 1990 to $577 million. Net income in 1989 was $802 million, down 0.7 per cent from the previous year's $807 million.

Revenue. Retail sales increased 1.6 per cent to $16,365 million in 1990. Sales of JCPenney stores and catalog increased 1.0 per cent in 1990 while comparable store sales decreased 0.3 per cent. For the year, sales increased 0.1 per cent in women's, 1.1 per cent in men's, and 1.5 per cent in children's, while decreasing 1.0 per cent in home furnishings. Sales of drug stores increased 11.2 per cent in 1990 while comparable sales increased 8.1 per cent. Retail sales increased 8.6 per cent in 1989. Retail sales declined in 1988 due to the phase out of home electronics, photography, and hard sporting goods merchandise from retail stores and the sale of the Belgian operation late in 1987.

Finance charge revenue arising from JCPenney credit card customer receivables increased 3.2 per cent in 1990 to $674 million, despite the sales of $800 million of customer receivables during the year. The 1990 increase was due to higher utilization of the JCPenney credit card and slower repayment by customers resulting in higher average customer account balances. In 1989, finance charge revenue increased 0.6 per cent to $653 million and decreased 4.0 per cent in 1988 to $649 million. For the first time, in 1990, finance charge revenue is shown separately in the consolidated statement of income. Previously, it was treated as a reduction of selling, general, and administrative expenses. The consolidated financial statements have been restated to reflect this change.

Revenues and profits of non-retail businesses improved in 1990 principally due to increases in life and health insurance premiums resulting from a 36.5 per cent increase in the number of policies and certificates in force. Additionally, the operations of JCPenney National Bank improved substantially in 1990.

Gross margin, as a per cent of retail sales, declined 180 basis points in 1990. The gross margin decline was primarily due to the slowdown of consumer spending, particularly in the third and fourth quarters, which resulted in increased promotional activity and higher markdowns. The LIFO method of inventory valuation had a negative effect on gross margin in 1990 due to a higher level of merchandise inflation, especially in women's apparel and fine jewelry. The LIFO charge amounted to $49 million as compared with a credit of $42 million in 1989, and a charge of $125 million in 1988. Excluding the effects of LIFO, gross margin, as a per cent of retail sales, declined 120 basis points and 80 basis points in 1990 and 1989, respectively. The 1989 decline was also the result of increased promotional activity over the prior year. In 1988, gross margin, as a per cent of retail sales, improved due to merchandise mix changes and the sale of the low margin Belgian operation late in 1987.

SG&A expenses, expressed as a per cent of retail sales, increased in 1990 to 30.6 per cent from 29.7 per cent in 1989 due to lower sales volume. SG&A expense dollars increased only 4.5 per cent in 1990 reflecting tightly controlled salaries and personnel related expenses and advertising costs. Health care costs, bad debt expense, and expenses related to the store modernization program, including the depreciation of store fixturing, increased substantially in 1990. In 1989, the SG&A expense ratio decreased slightly as a result of higher sales volume while SG&A expense dollars increased 7.1 per cent due primarily to higher salaries and personnel related costs to support the higher sales volume. In 1988, this expense ratio increased due to lower sales volume with only a modest 1.0 per cent increase in SG&A expense dollars.

Salary expense and occupancy costs benefitted in 1990 and 1989 from cost reductions associated with the mid-1988 relocation of the Company's headquarters to Dallas, Texas. Salary expense reductions were achieved through a lower salary structure while occupancy costs benefitted from lower rent, taxes, operating costs, and a 35 per cent reduction in square footage. Savings are expected to continue for the foreseeable future.

Costs and expenses of other businesses, at $309 million, were $30 million over last year. The increase was attributable to increased costs from the JCPenney Insurance operation associated with increased revenues. Costs and expenses of other businesses in 1989 were $208 million under 1988. The decrease was attributable to the sale of the casualty insurance personal lines operations, the discontinuance of Telaction, and the conversion of Shop Television Network to the JCPenney Shopping Network.

Interest expense has been flat over the past three years. Interest expense in 1990 was favorably impacted by lower interest rates and reduced borrowings resulting from the sales of $800 million of credit card receivables which represented two thirds of the Company's financings in 1990. Interest expense in both 1989 and 1988 was favorably impacted by reduced borrowings resulting from the sales of a portion of the credit card receivables, the sale of convertible preferred stock to the leveraged employee stock ownership plan (LESOP), and by the sale of the former headquarters building.

The effective income tax rate for 1990 was 30.6 per cent compared with 31.5 per cent and 32.3 per cent for 1989 and 1988, respectively. As a result of the Tax Reform Act of 1986, income taxes were reduced $52 million, $52 million, and $42 million in 1990, 1989, and 1988, respectively, due to the payment of a portion of the taxes on installment sales previously deferred at higher tax rates. 1990 was the last year for such income tax reductions. Beginning in 1991, tax rates will rise to more closely approximate a combined statutory rate of about 37 per cent. The Financial Accounting Standards Board issued Statement No. 96 (Accounting for Income Taxes) in 1987. The standard, as amended in 1989, is effective beginning fiscal year 1992. The Company has not adopted this standard. For further information, see page 35.

In December 1990, the Financial Accounting Standards Board issued Statement No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions), effective beginning fiscal year 1993. The Company currently records costs for benefits affected by this statement on a pay-as-you-go basis. The Company has not adopted this standard. For further information, see page 34.

Financial position. The Company generated $1,013 million in cash from operating activities in 1990 as compared to $520 million in 1989 and $1,298 million in 1988. Cash generated through operating activities increased $493 million during 1990, due principally to the sale of customer receivables.

Total customer receivables serviced by the Company were $4.9 billion at the end of 1990, $290 million or approximately 6 per cent over the level at the end of 1989. The increase in 1990 customer receivables serviced reflects increased utilization of the JCPenney credit card as well as slower repayment by customers. Total customer receivables serviced were $4.6 billion at the end of 1989, or about 12 per cent above the level at the end of 1988.

In 1990, the Company sold $800 million of customer receivables, $375 million in April and $425 million in September. In similar transactions, $350 million of customer receivables were sold in 1989 and $250 million in 1988. The primary objective of these transactions was to increase the financial flexibility of the Company's capital structure by providing access to a significant source of funds. After these sales, the Company's customer receivables were $3.5 billion at the end of 1990, $4.0 billion at the end of 1989, and $3.9 billion at the end of 1988.

Merchandise inventories increased to $2.7 billion in 1990, up 2 per cent from 1989. The Company has continued its efforts to bring its merchandise in line with an appropriate department store mix which has resulted in an increase in the quality of the merchandise inventories. Inventories increased 19 per cent in 1989 and decreased 6 per cent in 1988.

Property, plant, and equipment, at $3.5 billion, was $263 million above the level of 1989. Capital expenditures recorded in 1990 were $599 million, $80 million above the level of the preceding year. The increase in capital expenditures was principally related to the cost of updating JCPenney stores which was approximately 50 per cent of 1990 capital expenditures. Capital expenditures were $487 million in 1988. The Company presently expects capital expenditures of approximately $1.5 billion over the next three years. These expenditures include the cost of building a new headquarters in Plano, Texas, expected to be completed by late 1992.

During 1990, the Company issued $250 million of 10 per cent notes due 1997, and $250 million of 9.45 per cent notes due 2002. Subsequent to year end, in February 1991, the Company issued $250 million of 9.05 per cent notes due 2001. In 1989, the Company completed its debt restructuring program by calling two issues of high coupon long term debt totaling $143 million. These calls followed repayments of $152 million for two high coupon long term debt issues in 1988.

Total debt at year end includes $566 million of borrowings by the LESOP, which is guaranteed by the Company. The source of funds to repay the LESOP debt will be dividends from the Series B LESOP preferred stock and cash contributions by the Company, totalling approximately $50 million semi-annually through July 1998.

Stockholders' equity was $4.4 billion at the end of 1990, an increase of $41 million from the previous year. Stockholders' equity was reduced in 1990 by $237 million principally from purchases in the open market of common stock under the stock buy back program approved in 1988 following the inception of the LESOP. Since the first stock buy back program, begun in 1987, the Company has purchased a total of 36 million shares of common stock at a cost of $1.8 billion.

The Company anticipates that the major portion of its cash requirements during the next few years to finance its operations, store updating, and expansion will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Impact of inflation and changing prices. The impact of inflation on the Company has lessened in recent years as the rate of inflation has moderated. Inflation causes increases in the cost of doing business including capital expenditures. The effects of rising costs cannot always be passed along to customers by adjusting prices because of competitive conditions. By striving to control costs, the Company attempts to minimize the effects of inflation on its operation.

Additional information. For additional discussion and analysis of 1990, see the 1990 Financial Review on pages 26 through 36.

SUMMARY OF ACCOUNTING POLICIES

The dominant portion of the Company's business consists of selling merchandise and services to consumers through department stores that include catalog departments.

Basis of consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1990 ended January 26, 1991, 1989 ended January 27, 1990, and 1988 ended January 28, 1989. They each comprised 52 weeks. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

Finance charge revenue. Finance charge revenue arising from the JCPenney credit card customer receivables, formerly treated as a reduction of selling, general, and administrative expenses, is now shown separately in the "Revenue" section of the consolidated statement of income. The consolidated financial statements have been restated to reflect this change.

Short term investments. Cash invested in instruments with maturities of three months or less from time of investment is reflected as short term investments.

Merchandise inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, and 10 per cent for selling fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

Retail sales (In millions)	1990	Per cent increase (decrease) 1990 vs. 1989: All units	Comparative units	1989	Per cent increase 1989 vs. 1988: All units	Comparative units	1988
JCPenney stores							
Metropolitan markets	**$ 12,359**	0.9	(0.3)	$ 12,252	8.3	7.1	$ 11,313
Geographic markets	**2,257**	1.8	(0.1)	2,217	8.1	6.4	2,051
Total JCPenney stores	**14,616**	1.0	(0.3)	14,469	8.3	7.1	13,364
Catalog	**3,220**	0.5	n/a	3,205	9.8	n/a	2,918
Intracompany elimination	**(2,568)**	n/a	n/a	(2,558)	n/a	n/a	(2,331)
Total JCPenney stores and catalog	**15,268**	1.0	(0.3)	15,116	8.4	7.2	13,951
Drug stores	**1,097**	11.2	8.1	987	11.9	9.2	882
Total retail sales	**$ 16,365**	1.6	0.2	$ 16,103	8.6	7.2	$ 14,833

The intracompany elimination represents the duplication of those catalog sales made through JCPenney stores and also included in Catalog.

JCPenney stores includes the department stores of the Company which are located in all 50 states and Puerto Rico. Stores are segregated into metropolitan market stores, located primarily in regional comparison shopping centers, and geographic market stores, located in nonmetropolitan areas and in satellite towns within metropolitan areas. The stores market predominantly family apparel, shoes, jewelry, accessories, and home furnishings. All stores have a catalog department. Many of the stores also include styling salons, optical departments, and photographic studios.

Catalog expands the Company's retailing capabilities by offering a wide range of merchandise to complement the stores' assortments. Merchandise offerings, the majority of which represents lines of merchandise also found in JCPenney stores, include family fashions and home furnishings as well as sporting goods, home electronics, and other hardlines. Two general catalogs are published, Fall & Winter and Spring & Summer, and each is circulated to in excess of 10 million customers. The general catalogs are supplemented by some 50 seasonal, promotional, and specialty catalogs.

Drug stores, operating under the name Thrift Drug or Treasury Drug, offer typical drug store merchandise, including prescription drugs, along with health and beauty aid products. Thrift Drug's mail order pharmacy operation services the maintenance prescription needs of customers from corporations and organizations.

For additional information regarding JCPenney stores, catalog, and drug stores operations, see the Five Year Operations Summary on page 38.

Earnings per common share

(In millions except per share data)	1990	1989	1988
Primary			
Net income	**$ 577**	$ 802	$ 807
Dividend on preferred stock (after-tax)	**34**	35	17
Adjusted net income	**$ 543**	$ 767	$ 790
Weighted average number of shares	**118**	122	131
Net income per share	**$4.59**	$6.31	$6.02
Fully diluted			
Net income	**$ 577**	$ 802	$ 807
Assumed additional contribution to LESOP (after-tax) if preferred stock is fully converted	**15**	18	—
Adjusted net income	**$ 562**	$ 784	$ 807
Number of shares			
Weighted average number of shares (primary)	**118**	122	131
Convertible preferred stock and other	**12**	12	5
Weighted average number of shares	**130**	134	136
Net income per share	**$4.33**	$5.86	$5.92

Receivables (In millions)	**1990**	1989	1988
Customer receivables serviced	**$ 4,897**	$ 4,607	$ 4,126
Customer receivables sold	**1,400**	600	250
Customer receivables owned	**3,497**	4,007	3,876
Less allowance for doubtful accounts	**74**	72	71
Customer receivables, net	**3,423**	3,935	3,805
Other receivables	**414**	418	428
Receivables, net	**$ 3,837**	$ 4,353	$ 4,233

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold were $800 million in 1990, $350 million in 1989, and $250 million in 1988. No gain or loss was recognized at the date of sale. As of January 26, 1991, all $1,400 million of the certificates were outstanding and the balances of the receivables in the trust were $1,927 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the certificates (fixed rates ranging from 8.70% to 9.625%), absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Excess cash flows are used to establish reserve funds ($54 million at January 26, 1991) that are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds have been utilized as of January 26, 1991. Additionally, the Company has made available to the trust irrevocable letters of credit of $168 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 26, 1991. In connection with the sale of $375 million of certificates in 1990, the Company entered into two offsetting interest rate swap agreements with a commercial bank, each having a notional principal amount of $375 million. Currently, the Company has no interest rate exposure from the offsetting interest rate swap agreements which terminate when all certificates have been settled in the year 2000.

Merchandise inventories (In millions)	**1990**	1989	1988
Merchandise inventories, at lower of cost (FIFO) or market	**$ 3,062**	$ 2,969	$ 2,599
LIFO reserve	**(405)**	(356)	(398)
Merchandise inventories, at LIFO cost	**$ 2,657**	$ 2,613	$ 2,201

Properties (In millions)	**1990**	1989	1988
Land	**$ 194**	$ 171	$ 162
Buildings			
Owned	**1,640**	1,539	1,426
Capital leases	**247**	247	247
Fixtures and equipment	**2,552**	2,299	2,137
Leasehold improvements	**576**	535	491
	5,209	4,791	4,463
Less accumulated depreciation and amortization	**1,709**	1,554	1,429
Properties, net	**$ 3,500**	$ 3,237	$ 3,034

At January 26, 1991, the Company owned 214 retail stores, four catalog distribution centers, and two store distribution centers.

Capital expenditures (In millions)	**1990**	1989	1988
Land	**$ 25**	$ 9	$ 10
Buildings	**110**	113	81
Fixtures and equipment	**400**	330	319
Leasehold improvements	**64**	67	77
Total capital expenditures	**$ 599**	$ 519	$ 487

Expenditures for existing stores, primarily modernizations and updates, were $309 million in 1990, as compared with $246 million in 1989 and $205 million in 1988. Expenditures for new stores opened in 1990, 1989, and 1988 were $154 million, $133 million, and $112 million, respectively.

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses

(In millions)	1990	1989	1988
Trade payables	**$ 663**	$ 708	$ 646
Accrued salaries, vacations, profit-sharing, and bonuses	**398**	390	348
Taxes, including income taxes	**197**	258	300
Workers' compensation and public liability insurance	**89**	112	95
Common dividend payable	**77**	67	62
Other	**248**	259	215
Total	**$ 1,672**	$ 1,794	$ 1,666

Short term debt (In millions)	1990	1989	1988
Commercial paper	**$ 842**	$ 1,255	$ 663
Master notes	**62**	33	93
Short term debt	**$ 904**	$ 1,288	$ 756
Average borrowings	**$ 1,277**	$ 1,266	$ 1,194
Peak outstanding	**$ 1,665**	$ 2,241	$ 1,553
Average interest rates	**8.1%**	8.9%	7.6%

Current maturities of long term debt (In millions)	1990	1989	1988
7.875% debentures, due September 1991	**$ 75**	$ —	$ —
10.875% note, due October 1990	**—**	100	—
12.125% note, due 1993, called January 1990	**—**	64	—
Bank loan, variable rate, due April 1989	**—**	—	50
Zero coupon note, due 1989, $200 at maturity, yields 14.25%	**—**	—	194
Total	**$ 75**	$ 164	$ 244

Long term debt (In millions)	1990	1989	1988
Original issue discount			
Zero coupon notes and 6% debentures, due 1992 to 1994 and 2006, $700 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.2%	**$ 441**	$ 395	$ 355
Debentures and notes			
7.875% to 8.875%, due 1991 to 1998	**289**	378	397
9% to 9.75%, due 1995 to 2016	**1,265**	1,015	1,023
10% to 10.875%, due 1990 to 1997	**352**	109	224
12.125% to 12.75%, due 1991 to 1993	**—**	—	143
Other	**47**	50	53
	2,394	1,947	2,195
Present value of commitments under capital leases	**175**	189	201
Guaranteed LESOP notes, 8.17%, due 1998*	**566**	619	668
Long term debt	**$ 3,135**	$ 2,755	$ 3,064
Average interest rates	**10.3%**	10.4%	10.6%

**For further discussion, see LESOP on page 33.*

Changes in long term debt (In millions)	**1990**	1989	1988
Increases			
9.45% to 10% notes, due 1997 to 2002	**$ 500**	$ —	$ 200
Amortization of original issue discount	**46**	40	60
Guaranteed LESOP notes, 8.17%, due 1998*	**—**	—	700
	546	40	960
Decreases			
12.75% notes, due 1991, called in 1989	**—**	79	—
13.625% and 13.75% notes, due 1991 and 1999, called in 1988	**—**	—	152
Transfers to current maturities of long term debt	**75**	164	244
Other, including LESOP amortization	**91**	106	108
	166	349	504
Net increase (decrease) in long term debt	**$ 380**	$ (309)	$ 456

For further discussion, see LESOP on page 33.

Maturities of long term debt (In millions)	Long term debt	Capital leases
1991	$ 105	$ 24
1992	294	24
1993	47	24
1994	398	25
1995	147	19
1996 to 2000	977	78
Thereafter	760	52
Total	$ 2,728	$ 246
Less future interest and executory expenses		71
Present value		$ 175

Committed bank credit facilities available to the Company as of January 26, 1991, amounted to $2.0 billion. During 1990, the Company entered into a three year International Revolving Credit Facility Agreement under which $750 million is available to the Company. In addition, the Company has $1.25 billion of confirmed lines of credit available. The International Revolving Credit Facility Agreement and the confirmed lines of credit support commercial paper borrowing arrangements and neither was in use as of January 26, 1991.

Stockholders' equity was $4,394 million at year end 1990 compared with $4,353 million at year end 1989 and $3,957 million at year end 1988.

Preferred stock. During 1988, a leveraged employee stock ownership plan (LESOP) was created (see page 33 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to ten shares of common stock for each share of preferred stock. The conversion price is $60.00 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, yield 7.9 per cent, and are payable semi-annually on January 1 and July 1. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet and the "Guaranteed LESOP Obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity.

The preferred dividend is payable semi-annually at an annual rate of $4.74 per common equivalent share. Preferred dividends declared were $55 million in 1990, $56 million in 1989, and $28 million in 1988; on an after-tax basis, the dividends amounted to $34 million in 1990, $35 million in 1989, and $17 million in 1988.

Common stock. Under the Company's stock buy back programs, the Company has purchased a total of 36 million shares of common stock at a cost of $1.8 billion as of January 26, 1991.

Common stock purchases (In millions)	**1990**	1989	1988
Number of shares purchased	**4.0**	3.1	15.9
Cost	**$ 237**	$ 177	$ 797
Charged to reinvested earnings	**$ 210**	$ 156	$ 688
Charged to common stock	**$ 27**	$ 21	$ 109

All shares were retired and returned to the status of authorized but unissued shares of common stock. Amounts include Company purchases of common stock from a Company benefit plan in 1990, 1989, and 1988 of 50 thousand shares, 950 thousand shares, and 560 thousand shares, respectively.

Effective February 14, 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for 10 cents per share totaling $12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/200 of a share of Series A junior participating preferred stock at a price of $280. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

The quarterly common dividend was 66 cents per share in 1990, 56 cents per share in 1989, and 50 cents per share in 1988, or an annual rate of $2.64 per share in 1990, $2.24 in 1989, and $2.00 in 1988. Common dividends declared were $311 million in 1990, $271 million in 1989, and $260 million in 1988.

Changes in outstanding common stock	Shares (In thousands)			Amounts (In millions)		
	1990	1989	1988	**1990**	1989	1988
Balance at beginning of year	**120,347**	122,830	138,388	**$ 865**	$ 862	$ 960
Common stock issued	**179**	572	377	**12**	24	11
Common stock purchased and retired	**(3,965)**	(3,055)	(15,935)	**(27)**	(21)	(109)
Balance at end of year	**116,561**	120,347	122,830	**$ 850**	$ 865	$ 862

There were approximately 56 thousand stockholders of record at year end 1990. In addition, the Company's savings plans, including the LESOP, had 102 thousand participants and held 18.9 million shares of the Company's common stock. The savings plans also held 1.2 million shares of preferred stock, convertible into 11.6 million shares of common stock. On a combined basis, these plans held approximately 24 per cent of the Company's common shares after giving effect to the conversion of the preferred stock.

Equity Compensation Plan. Under the Equity Compensation Plan (Plan), five million shares of common stock were initially reserved for issuance. The Plan provides for the ability to grant a number of different types of awards, such as: stock awards, incentive stock options, nonqualified stock options, tax benefit rights, stock appreciation rights, and discount options. The Plan also provides for grants of stock options and restricted stock awards to members of the Board of Directors not otherwise employed by the Company.

Under the Plan, the Company issued to its officers a total of 405 thousand shares of restricted stock awards since 1987 which generally vest over a five year period. The awards have conditions and restrictions which are designed to assure that the officers stay in the Company's service and retain stock ownership.

	1990		1989		1988	
Stock options	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price
Balance at beginning of year	**1,499**	**$ 40.76**	1,531	$ 34.36	1,578	$ 29.15
Granted	**545**	**63.81**	524	53.07	321	47.48
Exercised	**(127)**	**27.92**	(552)	34.64	(343)	22.17
Expired and cancelled	**(7)**	**38.32**	(4)	47.84	(25)	41.68
Balance at end of year	**1,910**	**$ 48.21**	1,499	$ 40.76	1,531	$ 34.36

Credit sales	1990 Amounts (In billions)	1990 Per cent of eligible sales	1989 Amounts (In billions)	1989 Per cent of eligible sales	1988 Amounts (In billions)	1988 Per cent of eligible sales
JCPenney credit card	**$ 8.4**	**51.8**	$ 8.1	50.9	$ 7.2	49.0
American Express, MasterCard, and Visa	**1.8**	**11.2**	1.7	10.4	1.5	10.0
Total	**$ 10.2**	**63.0**	$ 9.8	61.3	$ 8.7	59.0

Approximately 90 per cent of sales on the JCPenney credit card were made in accordance with the regular plan and the balance in accordance with the major purchase plan in the last three years.

At year end, the number of JCPenney credit card accounts with outstanding balances was 17.6 million under the regular plan and 1.7 million under the major purchase plan. The average balances and maturities are shown in the table below:

	Average account balances			Average maturities (In months)		
	1990	1989	1988	**1990**	1989	1988
Regular plan	**$ 226**	$ 210	$ 195	**4.2**	4.0	4.0
Major purchase plan	**$ 541**	$ 526	$ 514	**9.6**	9.5	9.9
All	**$ 253**	$ 239	$ 229	**4.8**	4.6	4.7

Includes all customer receivables serviced.

Key JCPenney credit card information (In millions)	**1990**	1989	1988
Number of accounts serviced with balances	**19.3**	19.2	17.9
Customer receivables serviced			
Regular plan	**$ 3,997**	$ 3,683	$ 3,153
Major purchase plan	**900**	924	973
Total customer receivables serviced	**$ 4,897**	$ 4,607	$ 4,126
Bad debt expense	**$ 201**	$ 146	$ 144
Per cent of customer charges	**2.2**	1.6	1.8
Accounts 90 days or more past due as a per cent of customer receivables	**2.4**	2.0	2.1

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's base, and their dispersion across many different geographic areas of the country.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $416 million in 1990, as compared with $414 million in 1989 and $424 million in 1988.

Interest expense (In millions)	**1990**	1989	1988
Short term debt	**$ 103**	$ 113	$ 90
Long term debt	**228**	232	261
Income on short term investments	**(26)**	(47)	(43)
Other, net	**(4)**	5	(1)
Interest expense, net	**$ 301**	$ 303	$ 307

Rent expense (In millions)	**1990**	1989	1988
Minimum rent on noncancellable operating leases	**$ 248**	$ 215	$ 198
Rent based on sales	**36**	37	37
Minimum rent on cancellable personal property leases	**83**	90	106
Real estate taxes and common area costs	**113**	110	103
Total	**$ 480**	$ 452	$ 444

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancellable operating leases and subleases (In millions)	Gross rents	Net rents*
1991	$ 245	$ 167
1992	226	152
1993	217	148
1994	202	138
1995	187	129
Thereafter	1,236	814
Total	$ 2,313	$ 1,548
Present value		$ 900
Weighted average interest rate		10%

**Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.*

Retirement plans (In millions)	**1990**	1989	1988
Pension			
Service cost	**$ 39**	$ 34	$ 36
Interest cost	**105**	96	90
Actual loss (return) on assets	**18**	(213)	(125)
Net amortization and deferral	**(176)**	75	(6)
Pension credit	**(14)**	(8)	(5)
Savings plans expense	**47**	47	53
Total	**$ 33**	$ 39	$ 48

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees.

In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

The pension plan assumptions are reviewed annually and, if necessary, modified to reflect current experience. Accordingly, in the last three years the discount rate has been changed and the projected mortality and retirement ages updated.

The following table sets forth the status of the principal pension plan and the supplemental retirement program:

Pension plans funded status (In millions)	December 31 **1990**	1989	1988
Present value of accumulated benefits			
Vested	**$ 767**	$ 804	$ 686
Non-vested	**62**	66	72
	$ 829	$ 870	$ 758
Present value of actuarial benefit obligation	**$ 1,156**	$ 1,148	$ 1,001
Net assets at fair market value	**1,284**	1,351	1,164
Excess assets	**$ 128**	$ 203	$ 163
Key assumptions			
Rate of return on plan assets	**9.5%**	9.5%	9.5%
Discount rate	**10.0%**	9.0%	9.5%
Salary progression rate	**6.0%**	6.0%	6.0%

The present value of accumulated benefits utilizing the projected unit credit method is based on compensation and service to date. The present value of the actuarial benefit obligation considers estimates of future compensation, but not future service, and is used to determine pension expense (credit) and funding. No contribution was required or made in the past three years.

Certain changes in plan assets and in the actuarial benefit obligation are not recognized as they occur. In addition, at the date of adopting Financial Accounting Standard No. 87, the Company had an unrecognized excess of plan assets over the actuarial benefit obligation. The Company's consolidated financial statements reflect a net prepaid pension expense of approximately $100 million.

LESOP. The Company's LESOP is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed $700 million at an interest rate of 8.17% in a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase up to 15 million common shares in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the consolidated balance sheet. A like amount of "Guaranteed LESOP Obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP Obligation" is reduced accordingly.

The amount of compensation cost recorded by the Company represents its cash contribution to the LESOP.

Total assets and equity (In millions)	Savings plans December 31 1990	1989	1988	Pension December 31 1990	1989	1988
JCPenney common stock (19, 17, and 18 million shares at cost: $702, $579, and $507)	**$ 842**	$ 1,267	$ 919	**$ —**	$ —	$ —
JCPenney preferred stock (1, 1, and 1 million shares at cost: $698, $704, and $706)	**698**	854	706	**—**	—	—
Funds with insurance companies	**822**	855	778	**—**	—	—
Equity securities (cost: $28, $21, $16, $795, $865, and $801)	**53**	52	39	**917**	1,060	889
Fixed income investments (cost: $1, $6, $2, $278, $179, and $172)	**1**	6	2	**267**	178	170
Real estate (cost: $83, $86, and $85)	**—**	—	—	**105**	108	103
LESOP loan obligation, including accrued interest of $24, $26, and $19	**(617)**	(670)	(719)	**—**	—	—
Other assets, net	**24**	13	38	**(5)**	5	2
Net assets	**$ 1,823**	$ 2,377	$ 1,763	**$ 1,284**	$ 1,351	$ 1,164

Changes in fair value of retirement plans' net assets (In millions)	Savings plans December 31 1990	1989	1988	Pension December 31 1990	1989	1988
Net assets at beginning of year	**$ 2,377**	$ 1,763	$ 1,638	**$ 1,351**	$ 1,164	$ 1,071
Company contribution	**47**	47	53	**—**	—	—
Participants' contributions	**153**	144	117	**—**	—	—
Investment income	**193**	216	132	**65**	101	66
Unrealized appreciation (depreciation) of investments	**(668)**	516	115	**(83)**	129	59
LESOP interest expense	**(50)**	(54)	(19)	**—**	—	—
Benefits paid	**(229)**	(255)	(273)	**(49)**	(43)	(32)
Net assets at end of year	**$ 1,823**	$ 2,377	$ 1,763	**$ 1,284**	$ 1,351	$ 1,164

Postretirement health care benefits. The Company provides postretirement health care benefits to retired employees and their covered dependents meeting certain eligibility requirements. The Company recorded expenses for these benefits on a pay-as-you-go basis in the amounts of $16 million, $14 million, and $12 million in 1990, 1989, and 1988, respectively.

The Financial Accounting Standards Board issued Statement No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions) in December 1990. This statement requires accrual accounting for the expected cost of providing postretirement health care benefits to employees and their beneficiaries and covered dependents meeting certain eligibility requirements. An accrual is required during the years that employees render the necessary service. The standard is effective beginning fiscal year 1993. While this statement will not affect the Company's yearly cash outlays, it is expected to have a negative impact on the Company's earnings, the amount of which has not been determined.

Income tax expense (In millions)	**1990**	1989	1988
Current			
Federal	**$ 403**	$ 431	$ 380
State and local	**61**	84	75
	464	515	455
Deferred			
Federal	**(193)**	(129)	(66)
State and local	**(16)**	(18)	(4)
	(209)	(147)	(70)
Total income tax expense	**$ 255**	$ 368	$ 385
Effective tax rate	**30.6%**	31.5%	32.3%

	Amounts (In millions)			Per cent of pre-tax income		
Reconciliation of tax rates	**1990**	1989	1988	**1990**	1989	1988
Federal income tax statutory rate	**$ 283**	$ 398	$ 405	**34.0**	34.0	34.0
State and local income taxes, less federal income tax benefit	**29**	43	46	**3.5**	3.7	3.9
Reduction of deferred taxes on installment sales*	**(52)**	(52)	(42)	**(6.3)**	(4.4)	(3.5)
Tax credits and other	**(5)**	(21)	(24)	**(.6)**	(1.8)	(2.1)
Total income tax expense	**$ 255**	$ 368	$ 385	**30.6**	31.5	32.3

**Resulting from payment of taxes on installment sales previously deferred at higher tax rates in the consolidated financial statements. 1990 was the last year of such benefit.*

Taxes other than income taxes, over half of which were payroll taxes, totaled $363 million in 1990, as compared with $353 million in 1989 and $374 million in 1988.

Deferred taxes consist principally of accelerated depreciation and accounting for leases.

The Financial Accounting Standards Board issued Statement No. 96 (Accounting for Income Taxes) at the end of 1987. This standard requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). The standard, as amended in 1989, allows a transition period which provides flexibility for adoption up to the first quarter of 1992. The Financial Accounting Standards Board is currently evaluating a delay in the required adoption until the first quarter of 1993, as well as other major changes related to the recognition of deferred tax assets. The Company did not adopt this standard in 1990. Under the accounting rules, deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. If the liability method had been applied in 1990, deferred taxes reflected on the balance sheet would have been reduced by approximately $100 million, and stockholders' equity would have increased by the same amount. The standard permits either a restatement of previously issued financial statements or the inclusion of the cumulative effect of changing to the new standard as a separate component of net income in the year the standard is adopted. The Company is still evaluating the two methods of adoption.

OTHER BUSINESSES

JCPenney Insurance markets life, health, and credit insurance through direct response. At the end of the year, there were over 3 million policies and certificates in force. 1988 results include the personal lines operations of JCPenney Casualty Insurance Company which operations were sold in 1989.

JCPenney National Bank offers Visa and MasterCard credit cards. At the end of the year, about 370 thousand credit cards were active.

JCP Realty, Inc. is engaged in the development and operation of real estate through participation in joint ventures. At year end, JCP Realty had interests in more than 90 projects, primarily regional shopping centers. More than 70 of these were in operation, and the balance were in various stages of development.

Other revenue (In millions)	**1990**	1989	1988
Insurance premiums and investment income	**$ 255**	$ 197	$ 351
Bankcard interest and fees, principally bankcard	**116**	105	90
Real estate development operation	**—**	—	22
Total	**$ 371**	$ 302	$ 463

Cost and expenses of other businesses (In millions)	**1990**	1989	1988
Benefits, claims costs, and expenses of insurance operation	**$ 200**	$ 159	$ 327
Interest expense and bad debts of banking operation	**100**	94	75
Real estate development operation	**9**	9	3
Other	**—**	17	82
Total	**$ 309**	$ 279	$ 487

Net income (loss) of other businesses (In millions)	**1990**	1989	1988
JCPenney Insurance	**$ 36**	$ 26	$ 18
JCPenney National Bank	**10**	6	5
JCP Realty, Inc.*	**(6)**	(7)	14
Total	**$ 40**	$ 25	$ 37

**Includes gains, net of taxes, of $1, $3, and $15 from sales of interests in shopping center ventures and land.*

Assets of other businesses (In millions)	**1990**	1989	1988
JCPenney Insurance, principally investments	**$ 764**	$ 739	$ 859
JCPenney National Bank, principally bankcard receivables	**578**	584	584
JCP Realty, Inc., investments in real estate joint ventures	**97**	90	81
Total	**$ 1,439**	$ 1,413	$ 1,524

Liabilities of other businesses (In millions)	**1990**	1989	1988
JCPenney Insurance, principally policy and claims reserves	**$ 436**	$ 400	$ 499
JCPenney National Bank, principally certificates of deposit	**544**	540	488
JCP Realty, Inc.	**133**	126	115
Total	**$ 1,113**	$ 1,066	$ 1,102

QUARTERLY DATA

(Unaudited)	First			Second			Third			Fourth		
(In millions except per share data)	**1990**	1989	1988	**1990**	1989	1988	**1990**	1989	1988	**1990**	1989	1988
Retail sales	**$3,530**	3,341	3,174	**3,580**	3,438	3,211	**3,995**	4,061	3,610	**5,260**	5,263	4,838
Per cent increase (decrease)	**5.7**	5.2	(1.6)	**4.1**	7.1	(5.8)	**(1.6)**	12.5	(3.9)	**(0.1)**	8.8	(2.1)
Total revenue	**$3,801**	3,575	3,454	**3,834**	3,669	3,502	**4,247**	4,298	3,877	**5,528**	5,516	5,112
Per cent increase (decrease)	**6.3**	3.5	(1.5)	**4.5**	4.8	(4.7)	**(1.2)**	10.9	(3.6)	**0.2**	7.9	(2.1)
Gross margin, per cent of retail sales	**35.6**	36.0	36.1	**33.2**	33.8	33.4	**34.2**	35.7	35.8	**30.1**	34.2	33.3
Selling, general, and administrative expenses, per cent of retail sales	**32.5**	32.2	32.4	**32.8**	32.4	32.5	**32.0**	30.2	31.2	**26.6**	25.9	26.2
Income before nonrecurring items	**$ 154**	148	131	**83**	98	81	**134**	209	160	**206**	367	296
Per cent increase (decrease)	**4.1**	13.0	(3.8)	**(15.2)**	21.2	(21.3)	**(35.8)**	30.5	(6.7)	**(43.9)**	23.8	0.1
Net income	**$ 154**	128	131	**83**	98	81	**134**	209	160	**206**	367	435
Net income per common share												
Primary	**$ 1.21**	.97	.96	**.63**	.74	.61	**1.07**	1.65	1.17	**1.68**	2.95	3.28
Fully diluted	**$ 1.15**	.93	.96	**.62**	.72	.61	**1.01**	1.52	1.16	**1.55**	2.69	3.19
Dividends per common share	**$ .66**	.56	.50	**.66**	.56	.50	**.66**	.56	.50	**.66**	.56	.50
Common stock price range												
High	**$ 70**	56	51	**67**	60	51	**58**	69	55	**48**	75	54
Low	**$ 63**	51	40	**58**	55	44	**38**	60	46	**40**	64	51

FIVE YEAR FINANCIAL SUMMARY

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

	1990	1989	1988	1987	1986
Results for year					
Total revenue	$ 17,410	17,058	15,945	16,423	15,854
Retail sales	$ 16,365	16,103	14,833	15,332	14,740
Per cent increase (decrease)	1.6	8.6	(3.3)	4.0	7.2
Per cent increase in apparel merchandise inflation	5.0	0.5	4.1	4.4	1.3
FIFO gross margin, per cent of retail sales	33.3	34.5	35.3	34.1	33.7
Selling, general, and administrative expenses, per cent of retail sales	30.6	29.7	30.1	28.8	29.7
Interest expense, net, per cent of retail sales	1.8	1.9	2.1	2.0	2.3
Depreciation and amortization	$ 299	275	258	241	229
Income before income taxes and nonrecurring items	$ 832	1,202	970	1,151	964
Per cent of total revenue	4.8	7.0	6.1	7.0	6.1
Income taxes	$ 255	368	385	371	434
Income before nonrecurring and extraordinary items*	$ 577	822	668	706	530
Per cent increase (decrease) from prior year	(29.8)	23.0	(5.4)	33.2	33.5
Per cent of stockholders' equity	13.3	20.8	16.0	16.3	13.1
Net income	$ 577	802	807	608	478
Earnings per common share					
Primary					
Income before nonrecurring and extraordinary items*	$ 4.59	6.47	4.96	4.77	3.53
Net income	$ 4.59	6.31	6.02	4.11	3.19
Fully diluted					
Income before nonrecurring and extraordinary items*	$ 4.33	6.01	4.90	4.77	3.51
Net income	$ 4.33	5.86	5.92	4.11	3.17
Per common share					
Dividends	$ 2.64	2.24	2.00	1.48	1.24
Stockholders' equity	$ 36.75	35.62	32.04	30.15	29.00
Financial position					
Receivables, net	$ 3,837	4,353	4,233	4,536	4,614
Merchandise inventories	$ 2,657	2,613	2,201	2,350	2,168
Properties, net	$ 3,500	3,237	3,034	2,910	2,919
Capital expenditures	$ 599	519	487	376	350
Total assets	$ 12,325	12,698	12,254	11,734	11,846
Total debt	$ 4,114	4,207	4,064	3,563	3,736
Stockholders' equity	$ 4,394	4,353	3,957	4,173	4,340
Number of common shares outstanding at year end	117	120	123	138	150
Weighted average common shares					
Primary	118	122	131	148	150
Fully diluted	130	134	136	148	151
Number of employees at year end (In thousands)	196	198	190	181	176

All per share amounts reflect the 1987 two-for-one stock split.
**Extraordinary item is 1986 debt restructure charge.*

FIVE YEAR OPERATIONS SUMMARY

J.C. Penney Company, Inc. and Subsidiaries

	1990	1989	1988	1987	1986
JCPenney metropolitan market stores					
Number of stores					
Beginning of year	**693**	698	699	707	729
Openings	**19**	13	20	12	16
Closings	**(15)**	(18)	(21)	(20)	(38)
End of year	**697**	693	698	699	707
Gross selling space (In million sq. ft.)	**95.9**	94.5	94.7	95.4	96.1
Sales (In millions)	**$ 12,359**	12,252	11,313	11,463	11,001
Sales per gross square foot*	**$ 129**	128	118	119	114
JCPenney geographic market stores					
Number of stores					
Beginning of year	**635**	657	679	696	753
Openings	**27**	25	23	20	25
Closings	**(47)**	(47)	(45)	(37)	(82)
End of year	**615**	635	657	679	696
Gross selling space (In million sq. ft.)	**18.5**	18.3	18.6	18.2	18.4
Sales (In millions)	**$ 2,257**	2,217	2,051	1,965	1,887
Sales per gross square foot*	**$ 120**	119	113	106	101
Number of JCPenney stores	**1,312**	1,328	1,355	1,378	1,403
Catalog					
Number of catalog units					
JCPenney stores	**1,312**	1,328	1,355	1,378	1,403
Freestanding sales centers and merchants	**626**	501	392	325	290
Drug stores	**136**	126	117	120	118
Other, principally outlet stores	**16**	16	15	14	14
Total	**2,090**	1,971	1,879	1,837	1,825
Number of distribution centers	**6**	6	6	6	6
Distribution space (In million sq. ft.)	**11.4**	11.4	11.4	11.4	11.4
Sales (In millions)	**$ 3,220**	3,205	2,918	2,585	2,332
Drug stores					
Number of stores					
Beginning of year	**471**	434	407	390	374
Openings	**22**	39	34	21	21
Closings	**(6)**	(2)	(7)	(4)	(5)
End of year	**487**	471	434	407	390
Gross selling space (In million sq. ft.)	**4.8**	4.7	4.4	4.2	4.1
Sales (In millions)	**$ 1,196**	1,088	976	875	802
Sales per gross square foot*	**$ 258**	250	236	215	204

Catalog sales made through JCPenney stores and drug stores are included in the sales of those stores as well as in catalog.

**Includes stores in operation throughout the entire fiscal year.*

PUBLIC AFFAIRS

The Company continued to make significant progress in its commitment to contribute to the health and well being of the communities in which it does business. Education is a primary focus along with charitable contributions, community service programs, and minority supplier development. During 1990, the Company contributed $20.6 million throughout the nation.

The commitment to education included national support to The Business Roundtable education initiative and a $388 thousand investment in a school-based management project. $545 thousand was donated to 1,402 colleges and universities through the Matching Gift Program, and 200 children of longer term JCPenney employees received scholarships to colleges of their choice. Also, the Company's Golden Rule Network followed up on its video production of last year (dealing with teenage stress) by producing another video program, this one dealing with high school students' career selections. Over 10,000 copies of this video have been distributed to schools and agencies nationwide. The Company's total investment in education was $4 million in 1990.

The Company continued to promote volunteerism through the James Cash Penney Awards, which recognize employees for outstanding volunteer activities in their communities. The Golden Rule Award Program provides similar recognition to community volunteers outside the Company. A Golden Rule Youth Award was introduced in 1990 to encourage and recognize youth volunteers as well. The Golden Rule Award Program was expanded to 175 markets and contributed over $900 thousand to local charitable organizations.

The JCPenney Company has long recognized the importance of safeguarding the world's natural resources and preserving its environmental heritage. The Company is committed to the health and safety of its employees, its customers, and the communities in which it operates. In the belief that health, safety, and environmental considerations can and should be consistent with its economic goals, an Environmental Affairs Committee of senior management was established in 1990 to ensure that such considerations will be taken into account in Company operations. One of the first objectives of that Committee was to set forth a Statement of Principles on the Environment reflecting the Company's commitment to this important goal. Copies of that Statement may be obtained as indicated on page 40 of this Annual Report.

The Company is committed to expanding the purchase of merchandise and services from minority-owned companies. During 1990, purchases from minority-owned businesses were $328 million representing relationships with 1,973 suppliers.

The Company adheres to a policy of Equal Employment Opportunity. The following employment information summary represents employees of J.C. Penney Company, Inc., and wholly owned subsidiaries, excluding the facilities in Puerto Rico. The information provided delineates minority and female representation in major job categories.

	Total employed		Per cent female		Per cent minority	
Employment information	**1990**	1986	**1990**	1986	**1990**	1986
Officials, managers, and professionals	**19,739**	18,304	**44.4**	37.3	**10.7**	9.5
Management trainees	**1,255**	925	**63.9**	53.4	**23.3**	17.8
Sales workers	**106,807**	88,362	**88.0**	86.7	**16.9**	14.0
Office and clerical workers	**24,035**	28,464	**90.2**	90.3	**16.0**	17.4
Technicians, craft workers, and operatives	**28,642**	22,431	**84.4**	81.9	**19.9**	17.3
Laborers and service workers	**13,295**	12,908	**45.4**	41.2	**24.8**	21.9
Total	**193,773**	171,394	**80.2**	77.8	**17.2**	15.2

Office of the Chairman

William R. Howell
Chairman of the Board and
Chief Executive Officer

Robert B. Gill
Vice Chairman of the Board and
Chief Operating Officer,
JCPenney Stores and Catalog

JCPenney Stores

James E. Oesterreicher
Executive Vice President
Director of JCPenney Stores

W. Barger Tygart
Executive Vice President
Director of Merchandising

Gale Duff-Bloom
Senior Vice President
Associate Director of Merchandising

C. Kenneth Ogg
Vice President
Director of Operations, Services
and Inventory Management for
JCPenney Stores

Charles W. Stewart
Vice President
Director of Strategic Development
for JCPenney Stores and Catalog

William J. Ferguson
President
Southwestern Region

William E. McCarthy
President
Northwestern Region

R.H. Seaman
President
Southeastern Region

Richard C. Sherwood
President
Northeastern Region

James L. Hailey
President
Women's Division

Thomas D. Hutchens
President
Men's Division

James J. Kennedy
President
Home and Leisure Division

Henry H. Scott
President
Children's Division

J. Thomas Arthur
Vice President
Director of Marketing,
Home and Leisure Division

Marshall Beere
Vice President
Director of Merchandising,
Women's Division

Andrew Cumming
Vice President
Director of Merchandising,
Children's Division

Marilee J. Cumming
Vice President
Director of Merchandising,
Women's Division

David E. Fulcomer
Vice President
Director of Merchandise,
Home and Leisure Division

Ralph W. LaRovere
Vice President
Director of Merchandising,
Men's Division

J. Raymond Pierce
Vice President
Director of Merchandising,
Men's Division

Kenneth T. Russo
Vice President
Director of International Sourcing

Joseph P. Sapienza
Vice President
Director of Merchandise Development,
Men's Division

Donald F. Scaccia
Vice President
Director of Merchandise Development,
Women's Division

Gerald L. Shores
Vice President
Director of Merchandising,
Women's Division

N. Tice Siegel, Jr.
Vice President
Director of Merchandising,
Children's Division

Catalog

Rodney M. Birkins
President

Julius L. Debbs
Vice President
Director of Merchandising

Peter G. Fenlon
Vice President
Director of Sales and Operations

William J. Kelly
Vice President
Director of Advertising
and Publications

Corporate

Richard T. Erickson
Executive Vice President
Director of Corporate Personnel
and Administration

Robert E. Northam
Executive Vice President
Chief Financial Officer

Terry S. Prindiville
Executive Vice President
Director of Support Services

John T. Cody, Jr.
Senior Vice President
Director of Real Estate, Construction
Services and Specialty Retailing

Charles R. Lotter
Senior Vice President
Secretary and General Counsel

Ted L. Spurlock
Senior Vice President
Director of Credit and
Financial Services

Robert O. Amick
Vice President
Controller

Charles L. Brown
Vice President
Director of Auditing

James P. Bryant
Vice President
Director of Corporate Taxes

Joseph J. DeMelio
Vice President
Director of Insurance

David V. Evans
Vice President
Director of Information Systems

Anton C. Haake
Vice President
Director of Quality Assurance

Edward T. Howard
Vice President
Director of Investor Relations

Russell H. Longyear
Vice President
Director of Communications

Donald A. McKay
Vice President
Treasurer

M. Christopher Sears
Vice President
Director of Public Affairs and
Executive Assistant to the Chairman

Michael Todres
Vice President
Director of Distribution and
Non-Resale Purchasing

Assistant Controllers

William J. Alcorn
Leo A. Gispanski

Assistant Secretaries

Frank J. Bonet
Thomas M. Comerford
Cornelius T. Dorans
John V. Faltermeier
Alfred O. Goellner
Margaret R. Johnson
Richard M. Kleid
Eugene P. McGreal

Assistant Treasurers

Robert B. Cavanaugh
Stephen F. Walsh

Supplemental Information

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for 1990;
- JCPenney Minority Business Opportunities, a handbook to minority suppliers;
- Partners: JCPenney and Its Communities, the Company's social responsibility report;
- JCPenney Company Statement of Principles on the Environment.

Requests for the above should be addressed to:

Ms. Nancee F. Dixon
Public Relations Department
J.C. Penney Company, Inc.
P.O. Box 659000
Dallas, Texas 75265-9000
(214) 591-1488

Copies of J.C. Penney Funding Corporation's Annual Report are available from:

Ms. Heidi Rohloff Deen
J.C. Penney Funding Corporation
P.O. Box 227472
Dallas, Texas 75222-7472
Phone: (214) 591-2021

Inquiries about your stockholder record should be forwarded to:

Mrs. Marty Corna
J.C. Penney Company, Inc.
Securityholder Services
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: 1-800-842-9470
Monday — Friday,
7:30 A.M. — 4:00 P.M., EST

Exchange Listings

The New York Stock Exchange
(Ticker symbol — JCP)

Brussels and Antwerp
Stock Exchanges

Registrars

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Wilmington Trust Company
Wilmington, Delaware 19899

Transfer Agents

J.C. Penney Company, Inc.
Securityholder Services
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: 1-800-842-9470
Monday — Friday,
7:30 A.M. — 4:00 P.M., EST

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

BOARD OF DIRECTORS

M. Anthony Burns 1,4,5
Chairman, President and Chief Executive Officer, Ryder System, Inc.

Colby H. Chandler 3,4
Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

William M. Ellinghaus 1,4
Formerly President, American Telephone and Telegraph Company

Clifton C. Garvin, Jr. 1,2
Formerly Chairman and Chief Executive Officer, Exxon Corporation

Robert B. Gill
Vice Chairman of the Board and Chief Operating Officer, JCPenney Stores and Catalog

William R. Howell
Chairman of the Board and Chief Executive Officer

Vernon E. Jordan, Jr. 2,3,4
Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

Juanita M. Kreps 1,4
Economist and Educator, Formerly United States Secretary of Commerce

George Nigh 2,3,4
Formerly Governor of Oklahoma

Jane C. Pfeiffer 2,3,5
Independent Management Consultant

Joseph D. Williams 1,2,5
Chairman and Chief Executive Officer, Warner-Lambert Company

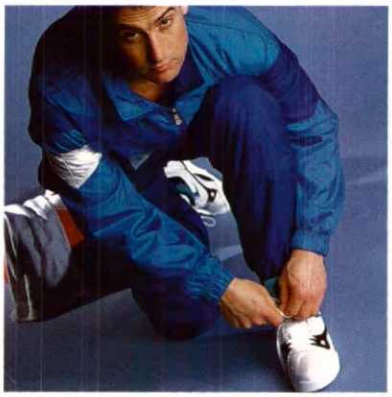
Boris Yavitz 1,2,5
Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

BACK, LEFT TO RIGHT: Juanita M. Kre [illegible] m R. Ho [illegible] thony Burns, Colby H. Chandler
FRONT, LEFT TO RIGHT: William M. Ell [illegible] Garv [illegible] Yavitz, Jane C. Pfeiffer, Vernon E. Jordan, Jr.

1. Member of the Audit Committee of the [illegible] oard of Directors for shareholder approval the independent auditors for the annual audit of the Company's consol [illegible] e audit plans, scope, fees, and audit results of the auditors; reports on the adequacy of internal accounting contr [illegible] ics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results [illegible] gram for correcting audit findings.
2. Member of the Public Affairs Committe [illegible] tention of the Board social and environmental trends and public policy issues which may have a potential imp [illegible] r of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and phy [illegible] d that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors [illegible] h respect to the size, composition, and functions of the Board of Directors, the qualifications of directors [illegible] of directors.
4. Member of the Personnel and Compensation Committe [illegible] Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes [illegible] ons with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which [illegible] pany's incentive compensation and retirement plans.
5. Member of the Benefit Plans Review Committee. This co [illegible] nancial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pe [illegible] plan, [illegible] ial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside dire[illegible]

1990 ANNUAL REPORT



J.C. Penney Company, Inc.

Where fashion comes to life℠